

CHAPTER 1**INTRODUCTION AND SUMMARY****★0101 GENERAL**

Under the provisions of 31 U.S.C. 3515, beginning with FY 1996, the Department is required to have audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget (OMB), the Department, as well as preparing the required Agency-wide financial statements, prepares separate audited financial statements for several individual reporting entities, e.g., Army, Navy, and the Air Force general and working capital funds within the Department. Those financial statements are expected to provide information to Department of Defense (DoD) program managers, the Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce statements that are accurate, consistent, and meaningful--statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the Statements of Federal Financial Accounting Concepts (SFFACs) and Statements of Federal Financial Accounting Standards (SFFASs), the Department continues to work toward the integration of budget and financial information in order to provide for more effective program management at all levels.

★0102 BACKGROUND

Federal agencies have traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of the Chief Financial Officers' (CFO) Act, the Government Management Results Act (GMRA) and subsequent accountability laws, the Congress called for the production of financial statements that fully disclose a federal entity's financial position and results of operations, and provide information not only for the effective allocation of resources, but also with which the Congress, agency managers, the public, and others can assess management performance and stewardship. Hence, the OMB, in consultation with the CFO Council, the President's Council on Integrity and Efficiency, and other interested parties, developed the formats and instructions for financial statements described and illustrated in this Volume.

★0103 POLICY

The provisions herein constitute guidance on the form and content of financial statements to be prepared implementing the SFFAS and the guidance issued by the OMB. These guidelines set out the reporting format and disclosure requirements for financial statements. Where, through additional disclosure, the value of a financial statement to its users is enhanced, that information also should be presented. This guidance is intended to provide a framework for financial statement preparation within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and program managers in making decisions. The hierarchy of accounting standards to be followed when recording accounting transactions is found in Volume 1 Chapter 8 of this regulation.

★0104 COVERAGE

A financial statement shall be prepared for each reporting entity identified in paragraph 0106 of this Chapter. This Volume specifies the entities that should be reported upon; identifies the level at which functions and/or funds should be reported on a consolidated basis; notes the basis of accounting to be utilized; prescribes the specific authoritative guidance on financial statement format and disclosures that should be applied by personnel (financial, logisticians, etc.) preparing the statements; and provides other instructions necessary for preparation of annual financial statements.

★0105 EFFECTIVE DATE

The provisions of this Volume are effective for the preparation of financial statements for fiscal years ending on and after September 30, 1999.

0106 DEPARTMENT OF DEFENSE REPORTING ENTITIES

★010601. Formal Reporting Entities. The OMB requires the DoD and 23 other agencies to prepare agency-wide financial statements in accordance with the GMRA of 1994 (Public Law 103-356) covering all accounts and associated activities of each office, bureau, and activity of the agency. The DoD Agency-wide financial statements provide the financial status of the entire DoD. In addition, there are eight reporting entities within the Department that, while included in the DoD Agency-wide statements, also are required to prepare stand alone audited financial statements. Those eight reporting entities are:

- A. The Army General Funds
- B. The Army Working Capital Funds (WCF)
- C. The Navy General Funds
- D. The Navy WCF
- E. The Air Force General Funds
- F. The Air Force WCF
- G. The Military Retirement Trust Fund
- H. The Army Corps of Engineers Civil Works Program

★010602. Other Defense Organizations. In addition to the eight reporting entities identified in paragraph 010601, the remaining accounts of the Department are reported in two columns of the consolidating balance sheet for the DoD Agency-wide financial statements. The Other Defense Organizations-WCF column will include the financial activity of the WCF organizations that are not identified in paragraph 010601. The Other Defense Organization-General Funds column will include the financial activity of the non-WCF organizations that are not identified in paragraph 010601.

★010603. Consolidation of Other Defense Organization Financial Statements. The consolidation of reporting entity financial statements for Treasury Index “97” funds, “Other Defense Organizations-General Funds,” will follow the flow of funds from the apportionment of an appropriation, to allocation, suballocation, and allotment. The primary advantage of this

consolidation method is that program managers and auditors can follow the flow of funds upward and downward and validate the receipt and execution of funds at all levels. For financial statement reporting, accounting activities will consolidate allotment and suballotment information consistent with the flow (distribution) of funds. All principal staff assistant (PSA) offices for the Office of the Secretary of Defense (OSD) and other organizations with Treasury Symbol "97" funds, identified in Table 2-3, will receive a copy (hardcopy or computer file) of their combining financial statements. The combining statements for each PSA/other organizations identified will have a column for each of their organization subentities identified in Table 2-3. All Defense organization subentities identified in Table 2-3 will also receive a copy (hardcopy or computer file) of the combining financial statements which includes their financial information.

★010604. Defense Logistics Agency (DLA) and Defense Finance and Accounting Service (DFAS). Although excluded from the list of DoD reporting entities required by the OMB to prepare financial statements and have those statements audited, the DLA and the DFAS will prepare financial statements annually and have those statements audited by Certified Public Accounting firms.

★010605. Distribution of Appropriation and Fund Symbols by Reporting Entity. Appendix A identifies the Appropriation and Fund Symbols that are included in the financial statements of each of the Department's reporting entities.

0107 CONTENT OF AUDITED FINANCIAL STATEMENTS

010701. The audited annual financial statements shall be comprised of five major sections. Specific instructions for the preparation of the contents of each section are provided in individual chapters of this Volume. The five major sections and the sequence of their presentation are as follows:

- A. Overview of the Reporting Entity
- B. Principal Statements and Related Notes
- C. Required Supplemental Stewardship Information
- D. Required Supplemental Information
- E. Other Accompanying Information

★010702. Overview of the Reporting Entity. The Overview of the Reporting Entity is the first part of the annual financial statement. The Overview must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial condition and results, problems and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance. The overview includes a formal introductory transmittal letter from the head of the reporting entity. Guidance for the preparation of the Overview is provided in Chapter 3 of this Volume.

★010703. Principal Statements and Related Notes. Principal Statements and Related Notes summarize financial information for individual funds and accounts within

reporting entities and subentities. The amounts reported on the principal statements are based on specific general ledger account balances. General ledger crosswalks of accounts normally used to derive and report line item information are provided in each of the chapters that contain instructions for the principal statements. Instructions for the preparation of the principal statements are contained in Chapters 4 through 9.

A. Principal Statements. The principal statements shall include:

1. Balance Sheet
2. Statement of Net Cost
3. Statement of Changes in Net Position
4. Statement of Budgetary Resources
5. Statement of Financing
6. Statement of Custodial Activity

★B. Related Notes. The notes related to principal statements summarize the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the entity's significant assets, liabilities, equity, revenues, expenses, and budgetary information. The notes also provide further detail of the amounts reported on the statements. In addition, when warranted, the notes identify departures from the federal accounting or reporting requirements. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies will be explained and the reason for noncompliance annotated in the footnotes. The related notes also contain disclosures required by the SFFASs. Instructions for the preparation of the required footnotes are contained in Chapter 10 of this Volume.

010704. Required Supplementary Stewardship Information. Stewardship resources are investments by the Federal Government for the benefit of the Nation. The Required Supplementary Stewardship Information Section provides information on resources entrusted to federal agencies, highlights their long-term benefit nature, and demonstrates accountability over these resources. Specific guidance for reporting DoD stewardship assets is provided in Chapter 11 of this Volume.

010705. Required Supplemental Information (RSI).

★A. Statement of Budgetary Resources. Monitoring of budget execution is at the individual account level. Accordingly, budgetary information aggregated to the entity level of the Statement of Budgetary Resources should be disaggregated to the level of the entity's major account groupings and presented as supplementary information. Guidance for the preparation of this information is provided in Chapter 12 of this Volume.

★B. Deferred Maintenance. The DoD is required to disclose in the RSI section of annual financial statements material amounts of deferred maintenance on property, plant, and equipment (PP&E). This reporting requirement is prescribed in the SFFAS No. 6, "Accounting for Property, Plant, and Equipment" and in the Statement of Recommended

Accounting Standard No. 14, “Amendments to Deferred Maintenance Reporting.” Guidance for the preparation of this information is provided in Chapter 12 of this Volume.

C. Segment Information. Additional supplementary information is required for each franchise fund and other intragovernmental support revolving funds that are not separately reported on the entity’s principal statements. Guidance for the preparation of this information is provided in Chapter 12 of this Volume.

★010706. Other Accompanying Information. The other accompanying information section of the DoD financial statements shall contain the information identified in Table 1-1, Section 10 and any other information that the entity management wishes to provide. Also see Chapter 3, section 0304.

★010707. Financial Statement Organization. The financial statements should be organized as shown in Table 1-1 as follows:

DETAILED OUTLINE OF DOD ANNUAL FINANCIAL STATEMENTS

Section Sequence	Major Components of Annual Financial Statements (Hard copy and files for Internet)	DoD Entity Reports	DoD Agency-Wide
1	Cover	Required	Required
2	Table of Contents	Required	Required
3	Message(s) from the Secretary of the Military Department, Commander of the U.S. Army Corps of Engineers or Director of Defense Agency as applicable for the reporting entity.	Required	Required
4	Overview	Required	Required
5	Principal Statements		
5.1	Balance Sheet, Consolidated	Required	Required
5.2	Statement of Net Cost, Consolidated	Required	Required
★5.3	Statement of Changes in Net Position, Consolidated	Required	Required
5.4	Statement of Budgetary Resources, Combined	Required	Required
5.5	Statement of Financing Combined	Required	Required
5.6	Statement of Custodial Activity, Consolidated	As Applicable	Required
6	Notes to Principal Statements	Required	Required
7	Supporting Consolidating/Combining Statements		
7.1	Balance Sheet, Consolidating	Required ¹	Required
7.2	Statement of Net Cost, Consolidating	Required ¹	Required
7.3	Statement of Changes in Net Position, Consolidating	Required ¹	Required
7.4	Statement of Budgetary Resources, Combining (By subentity)	Required ¹	Required
7.5	Statement of Financing, Combining	Not Required	Required
8	Required Supplementary Stewardship Information Section		
8.1	National Defense PP&E	Required ¹	Required
8.2	Stewardship Land	Required ¹	Required
8.3	Heritage Assets	Required ¹	Required
8.4	Non-Federal Physical Property	Required ¹	Required

Table 1-1

Section Sequence	Major Components of Annual Financial Statements (Hard copy and files for Internet)	DoD Entity Reports	DoD Agency-Wide
8.5	Research and Development	Required ¹	Required
9	Required Supplementary Information		
9.1	Disaggregated Statement of Budgetary Resources, Combining (By appropriation group, see Chapter 12, Table 12-1)	Required ¹	Required
9.2	Deferred Maintenance	As Applicable	Required
9.3	Segment Information (See Chapter 12, Section 1202)	As Applicable	Required
10	Other Accompanying Information (See Chapter 3, Section 0304)		
10.1	Any Additional Performance Information Not Provided in the Overview	As Applicable	As Applicable
10.2	Detailed List of Appropriations, Funds, and Account Included in Financial Statements	Required	Required
10.3	Reporting of Foreign Military Sales Activity (See Chapter 2, Paragraph 020104)	Not Applicable	Required
10.4	Other Information Which The Entity Management Wishes to Provide	As Applicable	As Applicable
11	Audit Opinion(s)		
11.1	Inspector General, DoD Audit Opinion or Endorsement	Required	Required
11.2	Audit Opinion of the U.S. Army Audit Agency, Naval Audit Service, Air Force Audit Agency or CPA Firm (e.g. for the Military Retirement Trust Fund)	Required	Not Applicable
Footnotes:			
1. Not Applicable to the Military Retirement Trust Fund.			

Table 1-1 (Cont.)

★0108 FINANCIAL STATEMENT AUDITS

★010801. DoD Reporting Entities. The Office of the Inspector General (OIG) will render an audit opinion letter for the DoD Agency-wide financial statements. The OIG opinion will be based, in part, on the opinions issued by the Military Department audit agencies or Certified Public Accounting firms for each of the reporting entities identified in paragraph 010601, above.

★010802. Other Defense Organizations. While the OIG will not issue separate audit opinions on the statements of the other defense organizations, the financial statements and records of the other defense organizations will be included in the audits performed to support the opinion issued on the DoD Agency-wide financial statements. The subentities within the “Other Defense Organizations” will be aligned by cognizant OSD PSA, as well as by the Military Departments for “97” funds managed by the Military Departments.